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NORTH

REPORT

TAKEN FOR GRANTED?

THE NEEDS OF SMALL VOLUNTARY
AND COMMUNITY ORGANISATIONS IN
A BIG SOCIETY ERA



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January 2013
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Institute for Public Policy Research

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ACKNOWLEDGMENTS

The authors would like to thank Allpay for providing the funding that has made this research possible. Thanks especially to Nick Peplow for his advice and support and Alison Goldsworthy at Maitland Political.

Thanks are also due to the Working Party on Small Grants and Microfinance: Beatrice Andrews, Cabinet Office; Toby Blume, Urban Forum; Tim Davies-Pugh, BIG Lottery; Harry Glavan, CDFA; Nick Peplow, Allpay; Cliff Prior, Unltd; Hugh Rolo, Locality; Alison Seabrooke, Community Development Foundation; Laura Smith, NCVO; Rob Williamson, Community Foundation Serving Tyne & Wear and Northumberland. All of the analysis and recommendations, however, are those of the authors.

Finally we are grateful to Will Cook at the University of Manchester for his initial analysis of the NCSCE Survey and our colleagues Ellie Geddes and Joanne Thomas as well as former colleague Lewis Goodall.

ABOUT IPPR NORTH

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This paper was first published in January 2013. © 2013
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INTRODUCTION

WHY DO SMALL ORGANISATIONS MATTER?

Small voluntary and community sector (VCS) organisations are the life-blood of civil society. From informal clubs and associations to established local charities, these organisations create connections between people through a common purpose or interest. Many of these organisations are the bedrock of, or catalyst for, community action and advocacy, giving them a central role in encouraging social action and community empowerment. Some small VCS organisations also successfully operate as social enterprises, trading their skills, goods and services, and in some cases even delivering public services.

Successive governments have recognised the importance of the role that small VCS organisations and social enterprises play. On the right, David Cameron's 'big society' places a premium on self-organised social action and communities coming together to pursue common causes, shape their neighbourhoods through the planning process and influence public service delivery through the new community rights enshrined in the Localism Act. On the left, the debates about a more relational democracy and the Blue Labour movement highlight the role of community association in pursuing the common good, using community organising to challenge the power of the state and the market.

Both of these strands of thinking place a heavy emphasis on small, community-based organisations and associations; yet it is generally the larger charities that participate in our national conversation. By virtue of their greater resources and organisational capacity they are better equipped to follow policy arguments, market and promote their activities and have a voice in public debate.

But as interest turns towards the balance of responsibility between the state and society, it is small organisations that have a particularly crucial role to play, especially at the local level. Vibrant VCS organisations are essential to the social economy of neighbourhood and a well-functioning civil society. This is particularly important for deprived individuals and neighbourhoods, which are disproportionately experiencing the impact of public sector cuts. IPPR North research has found that active and well-connected civil society organisations have a role to play in improvement in deprived neighbourhoods (Cox & Schmuecker 2010a). However, small organisations are disproportionately likely to be found in more affluent areas (Clifford 2011, Mohan 2011).

There are many resources that these groups draw on to assist their activities, such as access to meeting space and people's time and skills, but this project is particularly interested in the question of how these groups are funded and financed. With deep cuts to public sector budgets, with a shift away from grants and towards commissioning, and with low interest rates and market volatility affecting the endowments of trusts and foundations and stagnation in household incomes, some of the key routes to funding which these organisations have traditionally relied on are drying up. Consequently, many of these organisations are facing a difficult time. Against this backdrop IPPR North established a time-limited working party on the future of small grants and microfinance with the aim of exploring ways to sustain and enhance investment in small VCS organisations.

This paper reports the key findings and deliberations of the activities of the working group. The paper is divided into six sections:

- the first section explores what we mean by small VCS organisations and what we know about this part of the sector
- the second section looks at the changing narrative around the voluntary sector and the challenges this poses for small VCS organisations

- the third section reviews the current government's policy towards small VCS organisations
- the fourth section considers the financial and funding support VCS organisations need in order to continue to play their vital role in many communities
- the fifth section considers efficiency and innovation in funding and finance for small VCS organisations
- the final section offers conclusions and recommendations.

1. THE SIZE AND NATURE OF SMALL VCS ORGANISATIONS

There is no agreed definition of what precisely constitutes a ‘small’ VCS organisation or social enterprise. The National Council for Voluntary Organisations (NCVO) uses the definition that an income of less than £100,000 constitutes a small organisation, and less than £10,000 a micro-organisation. Throughout this report we have chosen to use an annual income of £60,000 as the cut-off point in order to be consistent with data made available through the National Survey of Charities and Social Enterprises (NSCSE), which we have used as the basis of our analysis (NSCSE 2008).

However, it is important to note that the NSCSE only covers organisations that are registered charities, community interest companies, companies limited by guarantee, and industrial and provident societies. As such, any analysis based on this survey must acknowledge that there will be many informal groups contributing to civil society that do not show up in the datasets used in this and other reports. Estimates of this ‘hidden’ part of the sector vary, with McCabe (2010) estimating that there are between 600,000 and 900,000 of these ‘hidden’ groups, although research that has been done with these groups has found that many of the issues and challenges they face are similar to those of other small VCS organisations (Mohan et al 2011).

There has been a fierce debate about the impact of the public sector cuts on the voluntary sector overall, given that many organisations receive some of their income in the form of public sector grants or contracts. To a certain extent this agenda is less important when talking about small VCS organisations and social enterprises. Analysis of the 2008¹ NSCSE demonstrates that organisations with an income below £60,000 a year are far less likely to be in receipt of funding from the public sector than their larger counterparts, either in the form of grants or contracts. However, deeper analysis reveals that funding from local councils and other statutory bodies is an important source of funding for small VCS organisations. Table 1.1 shows that while the public sector is a much more important funder for large organisations compared to small ones overall, small organisations are more likely to be in receipt of funding *only* from the local level compared to a mixture of local and national funding. The local state is nearly as important a funder for small organisations as it is for large ones.

Table 1.1
Proportion of VCS organisations receiving funding from the public sector, by size

	Large organisations	Small organisations
Local and national	27%	8%
Local only	23%	16%
National only	7%	4%
No funding from public sector	43%	73%

Source: NSCSE 2008 and authors’ calculations

1.1 Breaking down the voluntary sector

There is limited value in looking at the voluntary sector as a whole due to its diversity. In order to better understand the small voluntary and community sector better we undertook some analysis of the NSCSE 2008. It must be noted that this analysis is limited due to the fact that the NSCSE does not capture the ‘hidden’ informal groups mentioned above. Nonetheless, the survey does provide a sample of 28,000 organisations with incomes of less than £60,000, which enables us to shed some light on this elusive part of the sector. We made use of analytical techniques used by the market research industry to better understand individual and neighbourhood characteristics. The approach took a range of

¹ The 2010 results were not available at the time that this analysis was undertaken.

measures and created groups of types of organisation that had more in common with one another than they did with other groups. In this sense the categories produced were driven by the data.

The measures utilised in the analysis were all drawn from the NSCSE and included:

- characteristics of the area where the organisation operates (level of deprivation; population density)
- level of organisational income
- income sources, whether from grants or contracts
- whether an organisation has social enterprise characteristics, such as deriving a majority of income from contracts and trading; reinvesting surplus back into the organisations; and responding positively to a description of social enterprise as a description of their organisation
- number of employees
- number of volunteers.

Interestingly, the key cleavage that emerged from this analysis was the affluence of the area where the organisation operates.

Table 1.2
Typology of organisations
(by how large a proportion of all small organisations they are, starting with the largest proportion)

Organisation type and prevalence	Area likely to be found in	Funding	Capacity
Middle-income area (24% of small organisations)	Middle-income towns and cities	Average income: £2,000 % with no income: 20% % with grant income: 18% % involved with contracts/trading: 41% Top three funding sources: 1. donations (36%) 2. membership (27%) 3. no income (20%)	% with staff: 9% Average number of volunteers: 15
Affluent area (23% of small organisations)	Only found in more affluent urban and semi-urban areas	Average income: £20,000 % with no income: 0% % with grant income: 30% % involved with contracts/trading: 54% Top three funding sources: 1. donations (41%) 2. membership (22%) 3. investments (9%)	% with staff: 23% Average number of volunteers: 22
Village halls (21% of small organisations)	Mostly found in affluent areas, and exclusively in the countryside	Average income: £3,000 % with no income: 10% % with grant income: 19% % involved with contracts/trading: 48% Top three funding sources: 1. donations (41%) 2. membership (25%) 3. investments (9%)	% with staff: 6% Average number of volunteers: 14
Rural area (15% of small organisations)	Mostly found in affluent areas, and always in rural settings	Average income: £17,500 % with no income: 0% % with grant income: 34% % involved with contracts/trading: 58% Top three funding sources: 1. donations (40%) 2. membership (18%) 3. 'other' (12%)	% with staff: 23% Average number of volunteers: 20

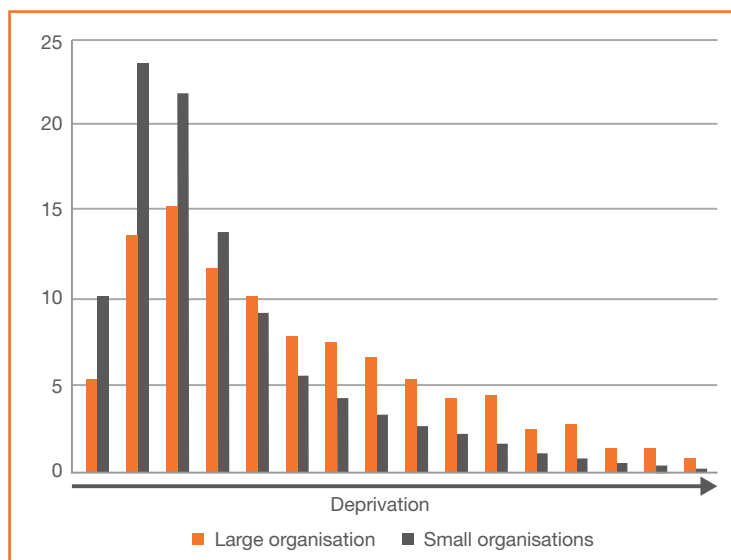
Deprived area (10% of small organisations)	Only found in deprived areas, these organisations exist in urban and rural settings, although they are more prevalent in urban areas	Average income: £17,500 % with no income: 1% % with grant income: 42% % involved with contracts/trading: 55% Top three funding sources: 1. donations (31%) 2. membership (13%) 3. non-statutory grants (12%)	% with staff: 34% Average number of volunteers: 18
Larger trading organisations (7% of small organisations)	Found in all kinds of neighbourhoods but slightly more prevalent in affluent areas	Average income: £25,000 % with no income: 0% % with grant income: 42% % involved with contracts/trading: 100% Top three funding sources: 1. trading (42%) 2. contracts (28%) 3. statutory grant/core funding (11%)	% with staff: 42% Average number of volunteers: 18

Source: NSCSE 2008 and authors' calculations

The clear outliers here are the small number of larger trading organisations. These less common organisations specialise in entrepreneurial activity and draw on very different sources of funding compared to other organisations which tend to rely on membership and donations for their income.

On deeper analysis a clear and urgent message emerges that it is small VCS organisations in deprived areas that policymakers should be most concerned about. First, this is because there are fewer of this type of organisation compared to those in more affluent areas (as figure 1.1 shows); a finding that is backed up by other research (Clifford 2011). Furthermore, small VCS organisations in deprived areas have less local capacity to draw on, with a smaller proportion of these organisations in receipt of donations, membership and volunteers compared to their more affluent cousins. A more detailed geographic breakdown shows a slight increase in distribution within areas of the very highest deprivation, which is likely to be due to increasing levels of state support for the voluntary and charity sector in the most deprived areas.

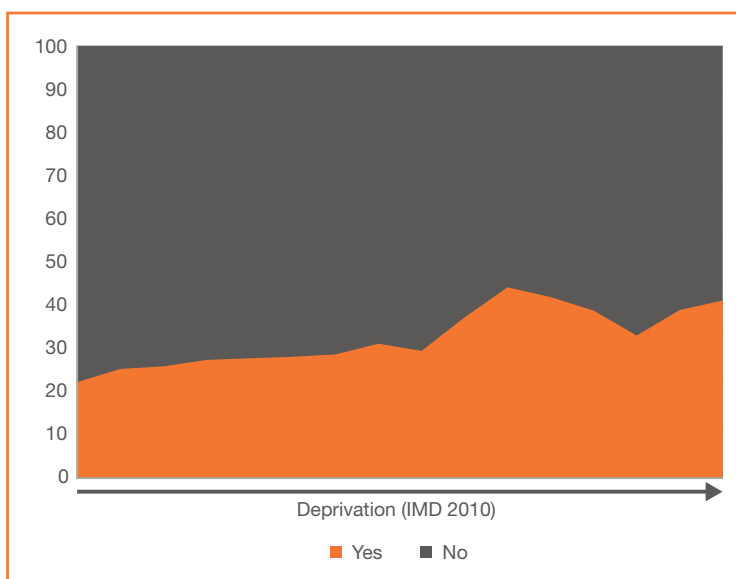
Figure 1.1
VCS organisations by local authority deprivation (% of organisations)



Source: IMD 2010, NSCSE 2008

Second, state support is a more important part of the funding mix for VCS organisations in deprived areas. These organisations are almost twice as likely to be in receipt of public funding, as figure 1.2 demonstrates. Given they have less local capacity to draw on (both in terms of income and formal skills), where these organisations have a relationship with the public sector it is more important for their sustainability.

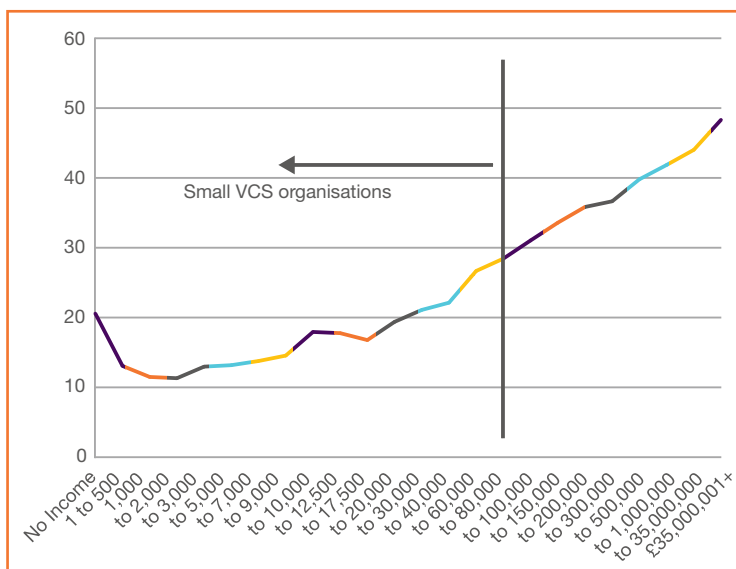
Figure 1.2
Percentage of small organisations in receipt of local, national or local statutory funding by area deprivation



Source: IMD 2010, NSCSE 2008

Third, while many small organisations show enterprising characteristics, only a very small proportion are earning enough from trading and contracts to enable them to employ staff. This finding is backed up to some degree by the level of interest in taking out loan finance among organisations with small incomes.

Figure 1.3
Percentage of total number of groups interested in loan finance, by organisational income



Source: IMD 2010, NSCSE 2008

The highest level of interest in loan finance was found among small organisations with no income. These organisations were also disproportionately more likely to be new. Once again, organisations in deprived areas emerged as a group to be concerned about. Not only were these organisations most likely to be reliant on grant funding, they were also one of the groups most likely to be dissatisfied with access to loan finance. Interestingly, the satisfaction with access to finance amongst the 'larger trading' type was also contingent on area deprivation, with satisfaction falling as deprivation rose. The 'middle-income area' and 'village hall' types were also disproportionately more likely to be dissatisfied with their access to finance.

1.2 Conclusion

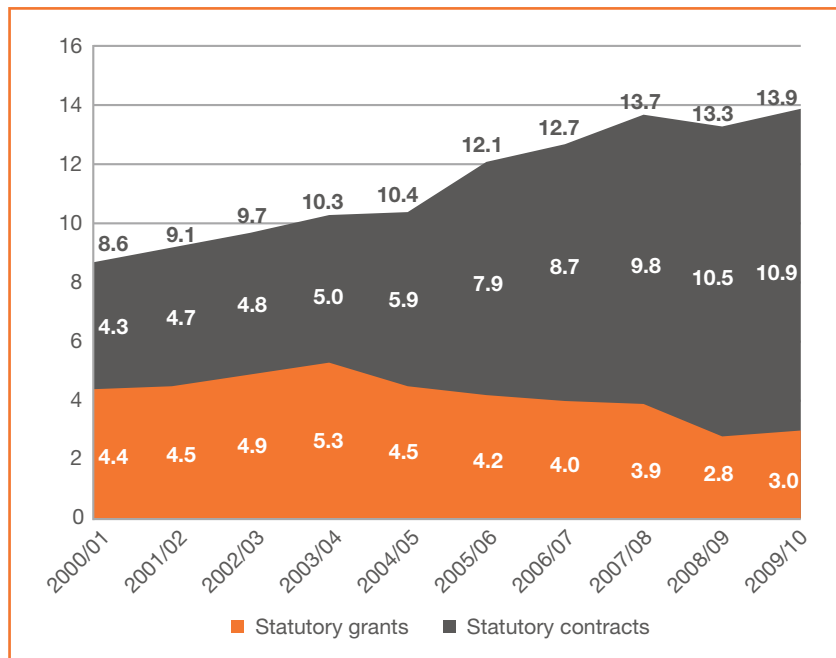
The message in this analysis is that it is small VCS organisations and social enterprises operating in deprived areas that public policy should be most concerned with. These organisations are less common, more likely to be reliant on grant funding, interested in trading and contracts but dissatisfied with the availability of finance options to enable them to pursue these interests. Furthermore – and critically – organisations in these areas arguably have an even more important role than they do in more affluent areas, given the association found between a connected and vibrant civil society and economic improvement in deprived neighbourhoods (Cox and Schmuecker 2010a).

2. THE CHANGING NARRATIVE AROUND THE VCS AND ITS CHALLENGES FOR SMALL ORGANISATIONS

The reliance on grants, donations and membership outlined in the previous chapter stands in sharp contrast to the current policy narrative about VCS organisations and social enterprises. The direction of travel in policy terms has been towards the role of organisations in the co-production and delivery of public services. In response there has been a shift away from the provision of public sector grants and towards commissioned services. The current government has set out its plans for a more mixed economy of public service delivery – explicitly including the VCS and social enterprises – in the Open Public Services White Paper (Cabinet Office 2011). This includes a specific aspiration for 25 per cent of public contracts to be awarded to small and medium-sized businesses. This is a commitment that small and medium-sized social enterprises should also stand to benefit from.

The move towards contracting out public services has been a double-edged sword for VCS organisations: on one hand it has increased the funding opportunities available to them, with the sector's income from statutory contracts increasing from £4.3 billion in 2000/01 to £10.9 billion in 2009/10. But it has also been accompanied by a reduction in the level of grant funding from the public sector. Over the same period this has declined from £4.4 billion to £3 billion, peaking at £5.3 billion in 2003/04, and it is likely to have fallen further since, given the cuts to public sector budgets.

Figure 2.1
Proportion of the VCS in receipt of statutory sector grants and contracts (£bn)



Source: NCVO 2010

This funding is under further threat as local authorities implement the deep and frontloaded cuts to their budgets passed on by central government. Indeed, the National Association for Voluntary and Community Associations estimate that £1.2 billion for VCS organisations and social enterprise is being cut by local authorities (PAC 2011), while freedom of information requests submitted by NCVO shows half of local authorities are making disproportionate cuts to the small voluntary and community sector (Kane and Allen 2011). Part of the explanation for this disproportionate impact is likely to lie in the decision of central government to end the Area Based Grant (ABG) and Working Neighbourhoods

Fund (WNF), which were both used by many local authorities to fund local community activities which contributed to regeneration. In the case of the ABG, some of the funding streams that it comprised have been rolled into the overall formula grant for local government. However, the overall size of local government cuts have left less room for manoeuvre as the functions that local government is required to fulfil in statute have not reduced. While local area regeneration is a recognised priority for many local authorities, it is not a statutory requirement. Current predictions suggest many metropolitan councils will have sizeable budgetary shortfalls even to meet statutory needs (LGA 2012).

2.1 Can small VCS organisations respond to this policy narrative?

The commissioning and contracting agenda is a difficult one for the smaller organisations to respond to. Even where they are delivering public service functions, by their very nature small VCS organisations tend to be more focused on the needs of the immediate area around them than larger organisations; supporting the view that one of the strengths of small VCS organisations is that they are responsive to local needs.

Table 2.1
Main geographical area of focus, by small and large organisations

	All small organisations	All large organisations
International	8%	7%
National	10%	15%
Regional	12%	19%
Local authority	31%	42%
Neighbourhood	41%	20%
Other	4%	3%

Source: NSCSE 2008

Being locally focused makes it difficult for these organisations to bid for public service contracts, especially at a time when many contracts are getting larger in size for the sake of economies of scale and efficiency.

In addition, the degree of core capacity required to be able to invest time in identifying opportunities and responding to them is beyond the reach of many small organisations. Furthermore, there is some evidence to suggest that commissioning bodies have a preference for known ‘brands’. This may in part be because they are more able to expend resources on bidding and relationship-building (Wise 2011).

Larger VCS organisations are more likely to have the resources to devote to writing bids and marketing, especially as the tendering and re-tendering cycle can be a year-round activity. They are also more likely to have the capacity to respond to contracts being let across the whole authority (Cox and Schmuecker 2010b). The polarisation of large and small organisations is the likely result of the move from grants to commissioning.

The trend towards payment-by-results contracts pushes this agenda further out of reach for most small organisations, as it necessitates having both capital to invest and working capital available to tide the organisation over while payments are earned and between changes in contracts. This is particularly challenging for small VCS organisations given the lack of collateral available with which to secure borrowing, and the lack of diverse income streams to maintain cash flow. As a result, there is a risk that the third sector will increasingly be structured around a small number of large companies and charities winning contracts and sub-contracting the work to increasingly insecure small VCS organisations. As a result, more small VCS organisations may be

squeezed out of the market for contract delivery, resulting in the collapse of many organisations (Davies 2011).

There are real dangers for the VCS sector in getting swept up with this narrative of public service delivery. While the government's public service reform agenda may herald opportunities for some organisations, it is crucial to emphasise that the role of the VCS is not to serve the public sector. It is there to serve the needs of its communities, to foster civic action, advocacy and mutuality and to meet otherwise unmet community needs.

2.2 If not commissioning then what?

While contracting is difficult for small VCS organisations and social enterprises to achieve, this broad narrative often fails to acknowledge that this activity is simply not suitable for many organisations. Many do not fit with the idea of the VCS constituting public service providers. Looking at the functions of organisations with an income of less than £60,000 in the NSCSE survey, they are overrepresented in areas like leisure, the arts, music and sports, and underrepresented in functions that would be more commonly associated with mainstream public services such as training and healthcare. As such, they play a particularly important role in enriching the social and cultural fabric of society, and in some – often indirect – ways, the economy too.

For these organisations the broad narrative is that they can be run purely on volunteers' efforts. But while this is true of some organisations, it is not true of all. Many do not like to admit it, but for these organisations grants have a vitally important role to play, alongside donations and membership.

This is because there are some activities that operate outside of the market, making it highly improbable if not impossible that they can be traded. For example, an organisation that seeks to promote social cohesion by bringing people from different backgrounds together to learn about each other, or an organisation that provides services to a highly deprived neighbourhood – like lifelong learning activities or sports activities for young people – provide services for free, and are aimed at people who are unable to pay for such services. Other organisations, meanwhile, are simply one-off, time-limited activities, for example a local campaigning organisation established to argue for better facilities for a playground, or a group that gets together to organise a local festival or street party. These are undeniably good things that contribute to the rich tapestry of society, enriching lives and communities, but it is hard to see how they can be run on a social enterprise model.

And while many activities can be run solely on voluntary effort, there are still moments when equipment needs to be bought, or specialist expertise employed. At moments like these, and for organisations like those described above, grants matter enormously.

Furthermore, grants often bring added value above and beyond the activity that they directly pay for. For example, the evaluation of the Grassroots Grants scheme found half of applicants increased the number of volunteers they supported. The vast majority of recipients also reported increased sustainability, with organisational life reportedly continuing beyond the grant period and organisations better able to focus on their community purpose. The grants also resulted in an expansion of activities, with over half of recipients reporting an expansion in their number of beneficiaries as a result of the grant (Pearmain et al 2011).

The policy narrative about organisations moving towards trading and contracts or being run entirely on voluntary effort seems to neglect this point. This is a view that appears to filter down into some parts of the sector itself. For example, while many organisations are enterprising in their approach to their work in the broad sense of the word, many fewer can claim to be social enterprises in the strict definitional sense of deriving over half of their income from trading and contracts. Yet research suggests that a large number of organisations describe themselves as social enterprises while not actually being engaged in trading (Cox and Schmuecker 2010b, Cook and Schmuecker 2011). This may suggest that many aspire to social enterprise, which is welcome. But it also seems to indicate some organisations trying to fit into a narrative that is not, in reality, suited to them.

Over time some of these organisations may aspire to make the ‘enterprise leap’ and introduce elements of social enterprise into their activities. However, organisations face a number of barriers to doing this. These include having the right skills among staff and trustees; the risk-aversion of trustees and the need for stronger core organisational functions such as business planning, financial management and marketing (Cox and Schmuecker 2010b). This is exacerbated by the increasing difficulties of accessing finance, particularly from mainstream providers. As a result, those that do want to move into contracts and trading find it difficult to do so.

This is not to argue that the VCS should not deliver public services on behalf of the public sector – often they bring skills, intelligence and innovative approaches that the public and private sectors struggle to recreate. However there is a risk of a loss of autonomy as funders demand more conditions to their funding. This tension is likely to be especially pronounced in the small voluntary and community sub-sector, where complying with contracts, and even managing small grants, can change the nature of the organisation and the closeness and responsive to local needs that make the organisation unique (Cunningham and James 2007).

2.3 Conclusion

The current public policy narrative emphasises the role of commissioning and voluntarism as means of sustaining what the VCS organisations and social enterprises do. While this is relevant to some organisations, a swathe of small VCS organisations and social enterprises do not find a home in this narrative. For these organisations access to funding to support their activities, enable them to employ staff, rent premises, buy equipment and purchase professional consultancy support is essential. Many organisations are able to draw on donations and membership to fund their activities. Nonetheless grants remain a crucial part of this funding mix, especially in economically deprived areas where there is both less financial capacity and less formal skills capacity for organisations to draw on.

3. PUBLIC POLICY AND SMALL VCS ORGANISATIONS

While the Coalition government – and the prime minister in particular – has emphasised the crucial contribution of small VCS organisations and social enterprises to a vibrant civil society, many have questioned whether the policy platform available is sufficient to deliver the kind of outcomes for which they are valued (Schmuecker 2011, Cooper and Macfarland 2012). This section considers in detail three of the government's policies that have particular relevance to small VCS organisations and social enterprises and offers a critical assessment of each.

3.1 Open public services and Big Society Capital

The Open Public Services White Paper sets out the government's aspiration to create a more mixed economy of public service delivery, including delivery by the VCS and social enterprises. To assist organisations in overcoming some of the barriers to contracting set out in the previous section the government has created Big Society Capital (BSC) to help address the problem of access to finance. BSC aims to develop a market for investment made on the basis of positive social impact as well as financial returns.

Launched in April 2012 with £400 million from dormant bank accounts and £200 million from high street banks, it will invest in intermediaries that will develop financial products for the VCS and social enterprise market. There is however a question mark around how useful BSC will be as a source of finance for small VCS organisations. First, there is less interest in loans as a possible source of funding among these organisations. Second, many small organisations will require a considerable amount of support to become investment-ready. Third, the transaction costs for small loans are high, making this part of the sector less attractive to intermediaries unless specific effort is put into creating a market in this area.

Community development finance institutions (CDFIs) could offer a solution here, as these organisations already provide affordable finance that would otherwise not be available, which they recycle again and again into communities. In 2010/11, 80 per cent of the £191 million lent by CDFIs went to civil society organisations; but only 2 per cent of their 23,000 loans were to small VCS organisations. This suggests that CDFIs tend to provide relatively large loans to a small number of larger civil society organisations. As a result of this lending 65 social enterprises were created and 250 safeguarded, and 75 charities and VCS organisations were also safeguarded (Glavan 2012). There is an opportunity for BSC and CDFIs to work together to develop products specifically designed for the small VCS organisation market. In this way BSC could take practical steps to assist the government to meet the aspiration of a quarter of all public sector contracts going to small businesses or social enterprises.

3.2 Neighbourhoods policy

The government has stated that neighbourhoods are the building blocks for its public services agenda (Cabinet Office 2011). This has been manifest in the neighbourhood community budget pilots, which are exploring how to pool public funding at the neighbourhood level. For a number of pilot areas this includes exploring how to commission services at a neighbourhood level. Given the primacy of the neighbourhood level for many small VCS organisations and social enterprises, this could present an opportunity for organisations to move into contracting activity. The likelihood of this will be increased if services are secured through a process of *commissioning* (a strategic approach to identifying the outcome sought) rather than simply *procurement* (the process of buying a product or service). This is an important distinction, with commissioning understood as a more collaborative process that takes into account social and economic

value as well as cash efficiency. A commissioning approach provides an important opportunity to integrate organisations into local service design and delivery.

However these pilots are in their early days; to deliver this ambition local public service providers will have to be willing to cede some power and control over budgets. So far a number of familiar difficulties have arisen, including uncertainty about whether EU rules prevent more creative and innovative approaches to commissioning. The Social Value Act 2012 places duty on public bodies to consider social value ahead of procurement of public services. The government's definition of social value is, 'a concept which seeks to maximise the additional benefit that can be created by procuring or commissioning goods and services, above and beyond the benefit of merely the goods and services themselves' (Mutuals Taskforce 2012). This is a welcome development. However there is a considerable amount of awareness raising and commissioner skills development that will need to be undertaken ahead of the Act coming into force in January 2013. The Cabinet Office's Mutuals Taskforce has recently set out recommendations for how commissioning can be improved (ibid). These recommendations should be incorporated into approaches being developed at the neighbourhood level.

Two provisions in the Localism Act 2012 also offer potential opportunities for new revenue streams for small VCS organisations and social enterprises operating at a neighbourhood level. The **right to challenge** empowers organisations to trigger a local service commissioning process by expressing an interest in providing or assisting in the provision of a council service. Where the expression of interest is accepted, the local authority must run a competitive commissioning exercise for the contract to deliver that service.

The **right to bid** enables parish and community councils and local VCS organisations and social enterprises to nominate land or buildings to be included in a list of assets of community value maintained by local authorities. Following inclusion, if the owner of decides to dispose of the asset, local organisations will have the right to bid to take on the asset, and be given six months to develop a bid.

These new rights present new revenue options to small groups, and could also serve to act as a rallying point for the formation of new groups and organisations in order to take on the management of community assets or challenge the way a service is delivered. Importantly, support, advice and grants are available to organisations interested in making use of these new rights. £19 million is available to organisations wanting to take control of local assets, while £11 million is available to communities with ideas about how they could run services. A free website, hosted by Locality, has also been established to provide ideas and information to organisations interested in making use of the new community rights.

However, there are big risks here for organisations too. First, with regard to the right to bid, property owners are far more likely to dispose of a liability than an asset. Second, with regard to the right to challenge, ultimately the end result is an open commissioning process. Some small VCS organisations and social enterprises may find, having pushed the door ajar, that they lack the capacity to compete against larger charities and private sector organisations that are better equipped for competitive tendering.

3.3 The Community First Fund

Perhaps the most important of the government's policies for small organisations in deprived areas is the Community First Fund; a four year programme due to run to March 2015, managed by the Community Development Foundation. It aims to stimulate local

action to build lasting change through the provision of small community grants. It consists of two elements:

- A £30 million Neighbourhood Matched Fund (NMF) grant programme for some of the most deprived areas in the country, overseen by panels of local volunteers. Panels are tasked with agreeing local priorities through a community consultation and funding projects to meet these priorities. Grant recipients have to demonstrate match funding on a 1:1 basis. Crucially the match can be made in either cash or kind (for example volunteer time).
- A national £50 million Endowment Match Challenge that will match donations of £100 million through individual philanthropy and corporate donations. This will build a £150 million pot of money, the returns from which will provide grant funding for years to come. The Community Development Foundation is working with the Community Foundation Network on this element. Eligible donations are matched on a 2:1 basis, with every £2 raised matched with £1 from the government

Importantly, the design of this programme embeds grant-giving in the context of local need, but establishing multiple local panels inevitably brings increased administrative costs. While the panels themselves do not administer the grant (the Community Development Foundation does this) it is imperative that they have the skills and capabilities to engage in good grant-giving which efficiently and effectively supports those organisations best positioned to help the neighbourhood meet its needs. In many deprived neighbourhoods this is likely to mean panel members require support and training. However, looking at the details of Community First NMF it is not clear that this balance has been struck in the right place, as outlined in the boxed text.

Support and capacity building for Community First NMF panels

Panels are able to spend up to 3 per cent of their allocation on panel members' expenses. To put this in context: the average panel has an allocation of just under £50,000 per year, meaning up to £1,500 is available for panel expenses. However, it is not clear whether capacity-building support constitutes a reasonable expense, and even if it does, £1,500 does not buy a great deal for up to eight people. In addition, each panel is able to access telephone and email support from the Community Development Foundation and each panel has identified a 'Panel Partner' to ensure grants given fit with the priorities set out by the panel, and that the panel works in a transparent and accountable way. This role is generally being played by a local registered charity or voluntary organisation, such as a council for voluntary service, volunteer centre, development trust or residents' association.

However, the government's hope is that these organisations will be able to fulfil these roles for free. If necessary they are able to draw down up to 10 per cent of the panel's 3 per cent expenses pot. Returning to our example above, this would mean just £150 in expenses towards the crucial job of ensuring openness and accountability. There is a real risk that the NMF will not have the desired impact as it is a relatively small fund allocated through a potentially wasteful bureaucratic process.

The endowment match also offers a good opportunity to develop a sustainable funding source for a local authority area, with the promise of government match funding a good incentive for donors, as their donations will go further. But there are opportunities to broaden out the offer beyond just high-value donors through the creation and marketing of place-based 'community funds' that any local businesses or individuals can donate to in order to build the endowment and support local community action.

3.4 Conclusion

Each of the initiatives discussed here has the potential to provide opportunities to small VCS organisations. But to have real impact there is a need to better link these policies together, especially Big Society Capital, which stands apart from the neighbourhood-based policies.

4. SUPPORTING ORGANISATIONS TO PROGRESS

To thrive, all organisations must be enterprising. For some this will mean doing the same things differently, for others it might mean expanding into new areas, while for others again it might mean developing products and services to trade. Whatever this looks like for an individual organisation, what really matters is that they are able to access funding and finance as appropriate in order to support their activities. This is particularly critical at key transition points as organisations develop.

Our analysis suggests that it is small organisations serving deprived neighbourhoods or excluded groups that should be of particular concern to policymakers. These organisations are less prevalent and have an important role to play in supporting social and economic development. In addition, they are more likely to find it difficult to access funding and finance and more likely to be dissatisfied with what is available.

It is important to emphasise that both grants and finance can have a crucial role to play at various turning points in an organisation's life – which is more appropriate will depend on the organisation in question and the activities it is engaged in. Table 4.1 (over) sets out some of the key points in the life of a social enterprise or VCS organisation. It should be noted that what is set out here is not necessarily a linear process, and not all organisations will go through all of these steps. Rather these are offered as the key points at which organisations might require funding or finance, and which of those is appropriate will vary from organisation to organisation. The table also offers examples of some of the funding options available at each of these turning points.

As table 4.1 outlines, overall there is a wide range of funding available to organisations. However, some key gaps have been identified, particularly in relation to funding for high-risk projects in the £20,000–£250,000 range, which makes it difficult for small VCS organisations to expand to compete in the public service delivery market and to develop into social enterprises (Brookes et al 2010). Also, the development of some social investment vehicles is still at a relatively early stage.

A key role for government is to ensure there is funding available to support organisations through these transitions. This does not necessarily mean government (local or national) should be the provider of such funding and finance, but it does have a key role to play in developing markets, sending signals about what needs to happen and creating the context for a thriving sector. The state can use its hard and soft power to support organisations to deliver shared goals such as community cohesion, resilience and social and economic wellbeing.

However, for small organisations with limited capacity, navigating the range of funding and finance options available and identifying which are the most promising for a given organisation and project can be difficult and time consuming. This is as much a challenge as the absence of funding. The organisations that support small VCS organisations – such as councils for voluntary service – have a key role to play here. The publication by Big Society Capital of a directory of social investors has been a big step forward in this respect, and its existence needs to be marketed widely.²

² Big Society Capital's website is at <http://www.bigsocietycapital.com/finding-the-right-investment/>.

Table 4.1: Key turning points in the life of a social enterprise or VCS organisation

Turning point	Possible needs	Examples of funding options
<p>Inception</p> <p>This is the idea stage, supporting the founder or entrepreneur to develop their initial idea</p>	<p>Grant for business planning</p> <p>Start-up and capital: loans to develop an idea and get it off the ground</p>	<p>Supporting individuals: UnLtd provides a complete package of support, often to individual social entrepreneurs. They don't simply give grants, but develop a bespoke package of support to assist people to see their vision through. UnLtd's model is based upon the ethos of investing in the individual and developing their potential to build the skills necessary to set up and run a social venture.</p> <p>Stimulating activity: the Big Lottery Fund recently ran a small micro-grants pilot for start-up funding. Targeting areas underserved by lottery grants, they promoted the opportunity to apply for funding for individuals to catalyse new community activities. The process was light-touch, with applicants undergoing a screening interview over the telephone to assess their eligibility.</p>
<p>Starting up</p> <p>Start-up costs, potentially including property, equipment and employees</p>	<p>Start-up grant</p> <p>Working capital</p>	<p>Grants from charitable trusts and foundations, the Big Lottery Fund (BLF), local authorities and through Community Foundations provide many small organisations with income. They are often a flexible funding source, and beyond setting out which themes they fund, are not prescriptive about the content of the projects they fund, so groups can develop long-term relationships with particular trusts.</p> <p>Over the last financial year, the BLF gave around £31.3m to just under 3,900 small VCS organisations in England. The average size of grant awarded was just over £8,000, and over 99% of these grants were funded through the Awards for All programme. These grants to small VCS organisations constituted 6% of the overall value of BLF grants made in England that year.</p> <p>Charitable trusts and foundations are estimated to give about £3.6bn in grants to charities (including religious organisations and universities) in the UK each year. There are also 56 Community Foundations in the UK, holding assets worth some £224m and providing around £70m of grants a year, almost exclusively to small organisations.</p>
		<p>Loans (either from a high street bank or specialist charity bank): where mainstream routes are not open CDFIs play an important role. They provide affordable finance that would otherwise not be available, which they recycle again and again into communities.</p>
		<p>Combining loans and grants: the Key Fund provides support to social businesses both at the start-up and expansion stages. Organisations can apply for up to £25,000, up to £5,000 of which could be given as a grant (subject to status) and the balance as a loan. Funds can be used to support revenue or capital costs, including capital purchases, cash flow, refurbishment costs, running costs, set-up costs and wages. Since 1999, the Key Fund has helped over 2,000 organisations through direct investment of over £24m and through funding existing and new social enterprises' costing, it has given over £10m.</p>

Turning point	Possible needs	Examples of funding options
Sustaining	<p>Core funding through grants to sustain the organisation's activities</p> <p>Bridging capital – short term cash flow shortage (low risk)</p> <p>Reserve capital – working capital to tide an organisation over until rescues other funding (higher risk)</p>	<p>Grants (as above)</p> <p>Loans (as above)</p> <p>Quasi equity: in place of a standard loan or investment, repayments are calculated as a percentage of the recipient's future revenue stream, so if growth is higher than expected the return will be higher, and if it's lower than expected it will be lower or even zero. These products are available for smaller as well as larger loans, for example through Angel Investors (from £10,000) and CAF Venturesome (from £50,000).</p>
Enterprising	<p>Grants for businesses planning and ensuring the organisation has sufficient core organisational capacity to bid for and deliver enterprise activities</p> <p>Some organisations will begin with grant funding and move towards becoming a social enterprise, seeking to secure contracts or trade their services</p>	<p>Targeted grants can support organisations' development, including taking the 'enterprise leap' from being grant-funded to becoming a social enterprise. This may require organisations to spend time developing a business plan, developing a marketing strategy, conducting market analysis, identifying trading and contracting opportunities and strengthening their core organisational functions.</p> <p>Venture philanthropy adopts techniques from venture capital in the finance industry. Alongside the investment of cash over a number of years, a substantial investment of time, skills and expertise is made by the donor to support organisational development and sustainability.</p>
Growing	<p>Grants to expand activity or start new projects</p> <p>Growth capital to expand and develop services and products offered</p> <p>High-risk lending which can be hard for organisations to secure</p>	<p>Giving circles such as the Funding Network seek to create change through collective giving. Events are held to bring potential donors together, where they hear short presentations from 56 organisations. Following the presentation and a questions and answer session, the organisations leave the room and there is a pledging session, where donors can contribute if they wish to.</p> <p>Patient capital: long-term loans with soft terms (low or little interest rates), usually for organisations that are deemed too risky for conventional investors but whose projects predict significant social or environmental impact. Providers may also support organisations through advice to help them grow and thus increase the probability of a high level of social impact. This has been trialled by the Esmée Fairbairn Foundation. In partnership with Cockpit Arts, a business incubator for designer-makers, it offered small loans combined with intensive business support to micro craft businesses to support their growth. The pilot provided £94,780 in loan funding through 21 loans to 15 individual applicants. The scheme was evaluated in 2011 and reported a zero default rate with loan recipients averaging an increase in turnover and profits of 28%.</p>

Source: Cox and Schmuecker 2010b and authors' own calculations

5. EFFICIENCY AND INNOVATION IN GRANTS AND MICROFINANCE

New means of funding and financing the VCS are rapidly emerging and there is a great deal of innovation in this sector. However, alongside the draw of the new, there remain a number of familiar and long-standing challenges to improving the way in which funding is made available. This section reviews some long-standing and some newer approaches to funding and micro-finance, and identifies areas for greater efficiency and some promising innovations.

5.1 Efficient grants

Grants are extremely important for many small VCS organisations. The role of the public sector may have diminished in this area, but £3.6 billion per annum is given in grants to charities (including religious organisations and universities) by charitable trusts and foundations.

While this is the preferred form of funding for many organisations, there remains a significant problem with excessive bureaucracy, especially in application, reporting and monitoring processes. It has been estimated that VCS organisations waste around £250 million a year on making duplicated or unnecessary reports to grant-giving foundations and government bodies (Fiennes 2012). This is compounded by funders not always making it clear what they are willing to fund, resulting in time wasted on inappropriate applications.

A single application process or even a single application portal has been talked about in the VCS for years without real progress being made. Some organisations, such as the Community Foundations, have succeeded in developing approaches whereby a single application form is used for multiple funders. Rolling this out more widely, or at least having some standard elements of application forms, so organisations do not have to write a bespoke application every time they apply for funding, would be an improvement.

Some organisations are also experimenting with using new technology to reduce bureaucracy in grant-giving. For example the NESTA Community Challenge programme required organisations to update a blog about their activities as a means of reporting on their activity in a way that is public and accountable. The Big Lottery Fund and partners Allpay have recently experimented with using prepayment cards as a way of paying out grants. This enables the donor to then monitor where the money is spent online and in real time, rather than through a retrospective, paper-based system.

5.2 Combining grants and loans

Giving a combination of grants and loans, as organisations such as UnLtd and the Key Fund do, provides an important source of funding and finance to organisations, particularly at start-up and expansion turning points.

Some organisations are also experimenting with this idea on a much smaller scale. For example a community anchor organisation in Levenshulme, Manchester, has secured a grant to support community activity in the local area. The grant fund is being stretched, so rather than simply providing grants to local groups in turn, recipients are being encouraged to use their funding to experiment with revenue-raising activities. So for example, an art club that was previously free might start charging its members a nominal fee or selling its art works at a local fete. The revenue raised is then paid back into the community anchor's grant pot. While this does not create a proper recycling fund, as ultimately the grant will diminish over time; the idea is to stretch the grant, while also encouraging local community organisations to dip a toe into the waters of enterprise.

5.3 Extending access to microfinance

Since 2012, organisations (rather than just individuals) have been eligible to join credit unions. This means that an organisation, its employees, members and beneficiaries are able to make use of the same credit union even if they're not all located in one area. Previously only individuals could be members and they all had to have something in common, such as working for the same employer or living in the same area. This relaxation of the rules not only extends access to financial services, it also widens the potential pool of people able to deposit into a credit union. These changes also allow credit unions to begin making business loans, which would include loans to social enterprise, opening up access to finance. Credit unions should promote this service to local VCS organisations and social enterprises.

CDFIs already play an important role providing access to finance for a small number of VCS organisations and social enterprises. However, research by the Community Development Finance Association (CDFA) reveals that only 22 CDFIs serve small VCS organisations. Lending by these organisations has been quite constant in terms of the number of loans agreed between 2004 and 2011, but the value of loans has been on an upward trend. Furthermore CDFAs research shows that while Yorkshire, London, the South West and South East are well served by CDFIs, places like Northern Ireland, the North East and the East of England are less well served (Glavan 2012). There is a need to extend the reach of CDFIs lending to civil society organisations, and to expand the number that do. The key challenge facing CDFIs is access to capital to lend on: Big Society Capital could have a pivotal role to play here.

5.4 Creative local authority support

Local authorities can support and fund a vibrant civil society through more routes than merely giving grants and commissioning services. One reason for local authorities moving away from grants and towards contracts is a desire to have greater control over the activities their public money is being spent on. However, this can still be achieved through grant-giving. A good example of this is 'challenge funds' or competitions to drive social innovation. Under such a model the funder specifies the outcomes sought, and it is for organisations to propose projects to meet the challenge.

Another area for activity is to work with civil society partners such as Community Foundations to encourage more local philanthropy and giving by both individuals and businesses to create funds for the local VCS. One opportunity is to build on the foundations of the Community First Endowment Fund to develop a sustainable funding source for a local authority area, with the promise of government match funding a good incentive for donors, as their donations will go further. The opportunity to give should be broadened beyond just high-value donors through the creation and marketing of place-based 'community funds' that any local businesses or individuals can donate to in order to support local community action. Numerous ways to donate to these funds could be developed, for example through discretionary charges on local restaurant bills, retail transactions and the inclusion of options to donate when paying local taxes and charges, such as when paying a council tax bill.

5.5 Crowdfunding funding

As new forms of technology and social media spread, they are offering organisations new options for securing funding and finance, by promoting their projects and activities to new people. Chief among these has been crowdfunding funding via websites such as Kickstarter, People Fund It, Buzzbnk, Crowdfunder and Spacehive. These crowd-funding

websites enable individuals and organisations to post details of their project, along with a funding target to be achieved. Donations or investments are then pledged by donors or investors via the website. If a project fails to meet its target within a given period of time it does not receive any funding.

This route is increasingly being used for start-up funding, funding for new projects, and funding to replace lost revenue from other sources. Where organisations are seeking funding for ongoing activity, they are generally more successful if their work is broken down into specific packages and activities rather than seeking core funding.

A snapshot analysis of successful Buzzbnk projects demonstrates crowd funding is being used to raise widely varying amounts – in this instance from £50 to over £100,000. The wide range in average donations across different projects also suggests some people are donating very large amounts while others make very small donations.

Table 5.1
Projects funded by
Buzzbnk

Organisation fundraising ranking	Amount raised (£)	Number of donations	Average donation (£)
1	112,195	72	1,558
2	76,220	37	2,060
3	49,920	57	875
4	15,497	50	305
5	8,055	112	71
6	6,090	19	320
7	5,610	50	1122
8	5,115	21	246
9	5,014	53	94
10	4,108	42	98
11	3,240	10	324
12	3,055	27	113
13	2,948	33	89
14	2,800	9	311
15	2,800	7	400
16	2,800	7	400
17	2,800	10	280
18	2,560	46	55
19	1,706	28	61
20	1,650	43	38
21	1,312	7	187
22	1,192	18	66
23	1,045	13	80
24	1,010	34	29
25	615	45	13
26	555	12	46
Average:			355

Source: <https://www.buzzbnk.org/>

However, our analysis suggests that succeeding with crowd funding is not as simple as posting your project on a webpage then sitting back and waiting for the donations to roll in. Those that fundraise successfully through this route generally bring with them a number of supporters willing to donate to and support the project. Those organisations with a good marketing approach that are able to publicise their campaign widely, bringing people to the crowd funding site, tend to be more successful.

6. CONCLUSIONS AND RECOMMENDATIONS

Nick Hurd, the minister for civil society, has said the 'big society' will ultimately be judged on its ability to take root in the poorest places (Hurd 2011). This is an important test, and one the government is at risk of failing.

This paper argues that the current policy debate focuses too heavily on twin narratives of the VCS delivering public services on the one hand and volunteerism on the other. Yet there is a swathe of small civil society organisations that do not fit into either camp. These organisations and social enterprises are often the bedrock of civil society, enabling social action, mutuality, advocacy and generally supporting the social fabric of communities. It is in the interest of the state – and the local state in particular – to ensure there is a vibrant civil society.

There is a real risk that the economic context, public sector austerity, and the shift away from grants to commissioning and contracts will have an adverse effect on small VCS and social enterprise organisations, especially those serving deprived communities where the state tends to be a more important funder. In these instances the state 'getting out of the way' will not result in these organisations flourishing. There is a risk that organisations serving deprived areas will struggle and even fail in this environment.

While the public sector is generally not the most important funder of this part of the VCS, the government plays a key role in setting the parameters of debate and discussion about the future direction of the VCS, which filters down into the sector as a whole. The public sector also has a role to play in creating the conditions for organisations to flourish. A central plank of this role is ensuring both grants and microfinance options are in place to support the creation, survival, expansion and enterprise of small civil society organisations.

This requires the state to work with funding and finance providers to ensure opportunities are in place, and with civil society support organisations to ensure organisations are able to access these sources of revenue. What is critical here is that organisations are able to access the right sort of funding to support themselves during key turning points as they grow and develop. We highlight below the key recommendations which have emerged from this report that will help in this task:

6.1 Intelligent grants

Grants really do matter. They give organisations the autonomy to provide for their communities, enabling them to deliver non-market services and public goods that would not otherwise happen. **There is a need to rebalance the policy narrative about the VCS. At present there is an over-emphasis on voluntarism and the role of the VCS in public service delivery. The importance of grants needs to be acknowledged.**

The public sector is not a major funder of small VCS organisations but it plays a more important role as a funder of small organisations serving deprived areas. **The sharp reduction in public sector grants for the VCS will have a disproportionate impact on organisations in deprived areas – these are the organisations most at risk.**

Local authorities should think more creatively about how they can use and target their grants to small VCS organisations to support them at key turning point in order to achieve sustainability. For example, giving grants for specific purposes, such as becoming enterprise-ready, should be explored. This would be a one-off grant specifically for the purpose of strengthening an organisation's core management functions to enable it to start bidding for local contracts. Local authorities could also experiment with 'challenge

funds', whereby organisations bid for grants to provide innovative solutions to address a defined problem; or stretching grant funds where grant recipients are required to experiment with revenue-raising approaches in order to repay a small amount of the grant.

Local authorities should also use their soft power and funding to bolster local endowment funds such as those being created as part of the Community First programmes. Numerous ways to donate to these funds could be developed, for example through discretionary charges on local restaurant bills, retail transactions and the inclusion of options to donate when paying local taxes and charges, for example when paying a council tax bill. Such place-based funds should be strongly locally-branded to build on people's attachment and commitment to place. Donating businesses could be entitled to use this branding in their own promotional materials, to denote their participation in the scheme, implementing a form of mutually beneficial cause-related marketing (Schmuecker 2010).

But it is not simply the statutory sector that can deliver on grants. There is a need for grant giving – in both the public sector and private philanthropy – to be more efficient and user-focused. We recommend:

- Application and monitoring processes should always be **proportionate to the size of the grant** sought.
- Wider use should be made of **'single portal' application processes**, such as that used by the Community Foundations.
- Donors should aim to move towards a **standard application form**, so organisations waste less time writing bespoke applications for multiple funders. At least standardising basic information required for applications would be a step in the right direction.
- Donors should continue to experiment with **innovative forms of monitoring**, such as blogging and pre-payment cards, to reduce time wasted on bespoke monitoring reports.

6.2 Access to microfinance

The government aspires to 25 per cent of all public service contracts going to small organisations. Small social enterprises should benefit from this target too, but for this to happen they need better access to microfinance, and this means there need to be products tailored to the needs of the very smallest organisations. To this end, **Big Society Capital should work with CDFIs to design microfinance products for smaller VCS organisations** to enable them to move into trading and contract delivery where appropriate. **If the government wants 25 per cent of contracts to go to small organisations it should allocate a proportion of BSC's capital to help it achieve this goal.**

Changes to the regulation of Credit Unions, which will allow organisations as well as individuals to become members, mean **Credit Unions could become important players in providing microfinance to local charities and social enterprises. These changes should be better promoted.**

6.3 Supporting organisations at key turning points

A major challenge for many small organisations remains confusion about what funding and finance is available and how to access it. Sector support organisations also have a key role to play here. Big Society Capital's directory of social investors is very helpful in this respect, and similar clarity about grant funding options available would be helpful. While some organisations do provide this, it is often a service that has to be paid for,

putting it out of reach of small organisations. **Support organisations, such as councils for voluntary services, should promote awareness of microfinance and funding opportunities available to small organisations in their area. Such awareness-raising and support should be encouraged and funded by central and local government.**

Cross-referencing this analysis of supply with an analysis of organisational turning points, as organisations initiate, establish, sustain, enterprise and grow, would help to identify where there are gaps in funding and finance for small organisations.

6.4 Intelligent commissioning

Local authorities and their partners must continue to strive for more intelligent commissioning, leaving behind crude cash-value based procurement exercises.

There remain a number of barriers to intelligent commissioning as set out by the Mutuels Taskforce (2012), and the government should act on their recommendations in full.

In addition, **the Social Value Act 2012 is a positive step in this respect, but a lot of energy needs to go into awareness-raising in the VCS and raising awareness and developing skills among commissioners if it is to have the desired impact.** The Act comes into force in January 2013, and a concerted campaign needs to take place in the coming months.

However, it is not good enough to stop with the Social Value Act. Truly intelligent commissioning would bring the knowledge and expertise of small VCS organisations – along with the knowledge of users and other practitioners – into the need assessment and service design process. This will potentially also create opportunities for small VCS organisations to dip their toes into the world of public service delivery and contracts where relevant. Doing this at the neighbourhood level would further increase the opportunity for small VCS organisations as the vast majority of them operate at this level.

6.5 Conclusion

The small voluntary and community sector represents the lifeblood of many local communities – not least in deprived neighbourhoods. At present such organisations are under severe threat. But by adopting innovative and more efficient methods of financing their activities as set out above, far more will survive than at present looks likely. Rather than taking VCS organisations for granted, now is the time to act to preserve them.

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